Montgomery College
Office of Business Services

Prepaid Expenses Guidelines
Drafted: 5/15/2019

Prepaid Expense
A prepaid expense is a payment made in advance of receiving the services / goods. Do not make prepayments except in the circumstances listed, below:

Exceptions

1) Legislation or a regulatory agency requires prepayment

2) Product or service cannot be obtained without first providing payment

   Note: A prepaid expense is expensed in the year payment is made in the circumstances listed, below:
   - Subscriptions and Memberships < $2,500
   - Conferences and Registration fees < $2,500
   - Advance payment of travel < $2,500
   - Renewal of an existing contract, if the amount was expensed in the previous year. (Record the transaction consistent with the previous year.)

3) Significant cost savings

   If making a prepayment will result in a discount, prepayment can be made if, approved by Procurement.

Guidelines for Exceptions

1) Prepayments are to be negotiated to the smallest amount.

2) Because of the cost of labor to process payments, it is in the best interest of the college to keep the frequency of payment to vendors, as low as, possible. In order of most desirable to least: Annual, Bi-annual, Quarterly, Monthly.

FAQ

A payment was made in June for a product/service received in the next fiscal year (July or later). In which year, will the expense hit the budget?

If the PO for the expense is carried forward to the next fiscal year, the budgeted amount will also carry forward. If the PO is not carried forward, the expense will “hit” the next year’s budget. Note: POs carried forward are listed on Banner reports as C- committed.